

**MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT
MELCHER-DALLAS, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2004

**Peak & Gerdes, LLP
Certified Public Accountants
103 Benton Avenue East
Albia, Iowa 52531**

TABLE OF CONTENTS

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-16
Basic Financial Statements:		
	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	18
Statement of Activities	B	19-20
Governmental Fund Financial Statements:		
Balance Sheet	C	21
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	22
Statement of Revenues, Expenditures and Changes in Fund Balances	E	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	24
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	25
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	26
Statement of Cash Flows	I	27
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	28
Statement of Changes in Fiduciary Net Assets	K	29
Notes to Financial Statements		30-41
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		43
Budget to GAAP Reconciliation		44
Notes to Required Supplementary Information - Budgetary Reporting		45
	<u>Schedule</u>	
Other Supplementary Information:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	47
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	48
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	49
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	50
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		51-52
Schedule of Findings		53-57

MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<u>Board of Education</u> (Before September, 2003 Election)		
Lary Willoughby	President	2003
Ken Haselhuhn	Vice-President	2003
Mark Herold	Board Member	2005
Barry Fisher	Board Member	2004
Ken Schneider	Board Member	2005
<u>Board of Education</u> (After September, 2003 Election)		
Lary Willoughby	President	2006
Ken Haselhuhn	Vice-President	2006
Mark Herold	Board Member	2005
Barry Fisher	Board Member	2004
Ken Schneider	Board Member	2005
<u>School Officials</u>		
Tom Dannen	Superintendent	2004
Andrea Lawler	District Secretary and Treasurer	2004
Drew Bracken	Attorney	2004

Melcher-Dallas Community School District

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
103 BENTON AVENUE EAST
ALBIA, IOWA 52531

(641) 932-3295

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Melcher-Dallas Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District, Melcher-Dallas, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principals.

As described in Note 14 to the financial statements, during the year ended June 30, 2004, Melcher-Dallas Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2004 on our consideration of Melcher-Dallas Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 43 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Melcher-Dallas Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

August 20, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Melcher-Dallas Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,198,781 in fiscal 2003 to \$3,054,546 in fiscal 2004, while General Fund expenditures increased from \$3,042,327 in fiscal 2003 to \$3,054,685 in fiscal 2004. The District's General Fund balance decreased from (\$38,922) in fiscal 2003 to (\$39,915) in fiscal 2004, a 3% decrease.
- The decrease in General Fund revenues was attributable to a decrease in property tax income and state and federal grant revenue in fiscal 2004. During the fiscal year, the State of Iowa did not pay approximately \$34,000 in state aid which had been budgeted and originally appropriated for us by the State. The increase in expenditures was due primarily to an increase in negotiated salary expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2004. As a result, the District funded a portion of the current year General Fund salaries and benefits by incurring a larger deficit fund balance.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone decreasing from \$18,466 in fiscal 2003 to \$8,951 in fiscal 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Melcher-Dallas Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Melcher-Dallas Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Melcher-Dallas Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

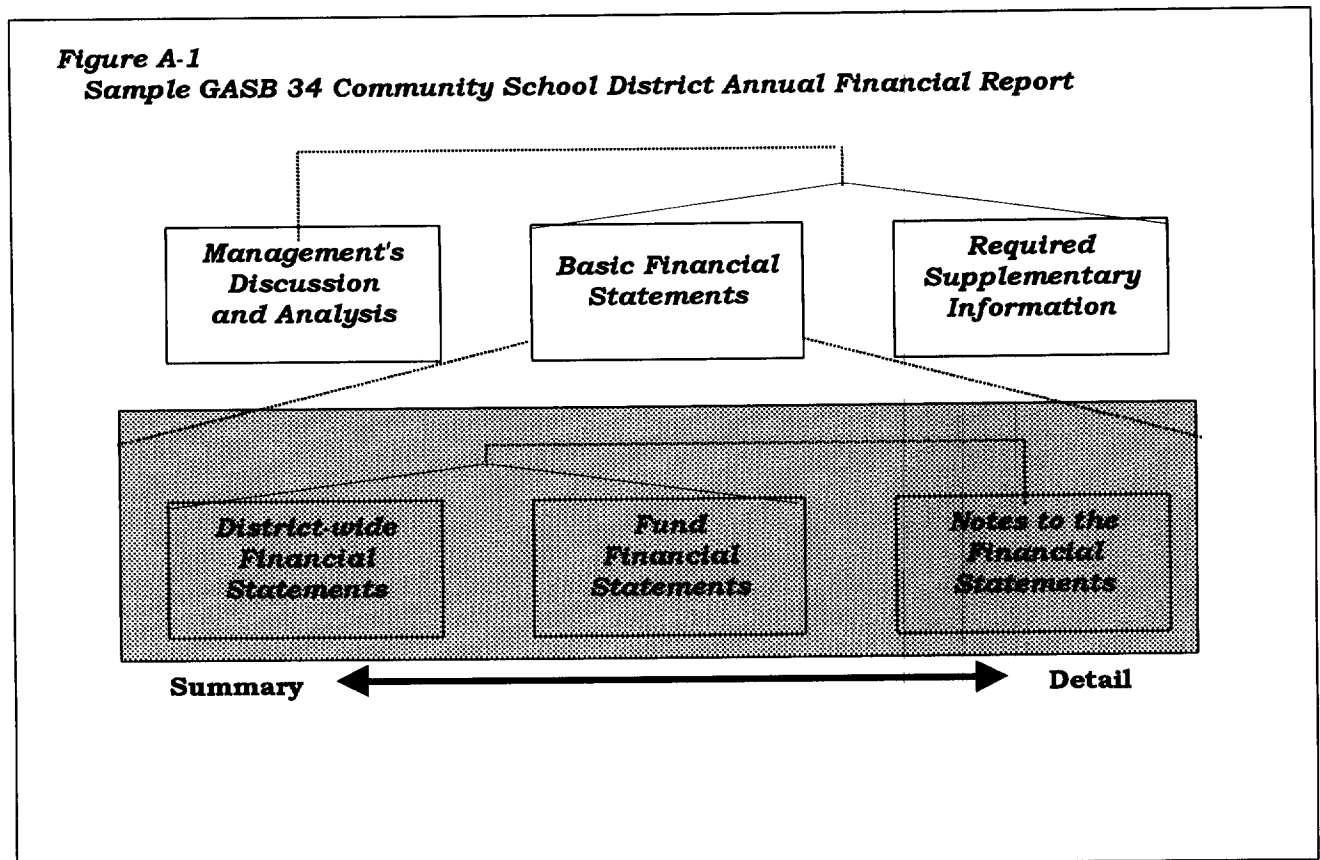


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or

decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004.

Figure A-3 Combined Statement of Net Assets (Expressed in Thousands)			
	Governmental Activities	Business type Activities	Total District
	June 30, 2004	June 30, 2004	June 30, 2004
Current and other assets	\$ 2,445	\$ 12	\$ 2,457
Capital assets	3,676	26	3,702
Total assets	6,121	38	6,159
Long-term liabilities	1,896	-	1,896
Other liabilities	2,381	13	2,394
Total liabilities	4,277	13	4,290
Net assets			
Invested in capital assets			
net of related debt	1,779	26	1,805
Restricted	62	-	62
Unrestricted	3	(1)	2
Total net assets	\$ 1,844	\$ 25	\$ 1,869

The District's combined net assets decreased by nearly 6%, or approximately \$128,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$4,000, or 8% over the prior year. The increase was primarily a result of decreased expenditures in the Management Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$42,000.

Figure A-4 shows the change in net assets for the year ended June 30, 2004.

Figure A-4 Changes in Net Assets (Expressed in Thousands)			
	Governmental Activities	Business type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	\$ 172	83	255
Operating grants, contributions and restricted interest	372	79	451
Capital grants, contributions and restricted interest	7	-	7
General revenues:			-
Property tax	895	-	895
Income surtax	63	-	63
Unrestricted state grants	1,887	-	1,887
Unrestricted investment earnings	9	-	9
Other	17	-	17
Total revenues	3,422	162	3,584
			-
Program expenses:			-
Governmental activities:			-
Instruction	2,231	-	2,231
Support services	867	-	867
Non-instructional programs	-	164	164
Other expenses	450	-	450
Total expenses	3,548	164	3,712
			-
Change in net assets	\$ (126)	(2)	(128)

Property tax and unrestricted state grants account for 78% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 83% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,421,825 and expenses were \$3,584,270. In a difficult budget year, the District was able to balance the budget by deficit spending.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,231	1,827
Support services	867	867
Non-instructional programs	-	(11)
Other expenses	450	315
Totals	<u>\$ 3,548</u>	<u>2,998</u>

- The cost financed by users of the District's programs was \$171,536.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$371,817.
- The net cost of governmental activities was financed with \$958,091 in property and other taxes and \$1,887,154 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$161,681 and expenses were \$163,513. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service and federal and state reimbursements.

INDIVIDUAL FUND ANALYSIS

As previously noted, Melcher-Dallas Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$18,976, well below last year's ending fund balances of \$200,414.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. We have attempted to offset the decrease in revenues by decreasing the expenditures. The staff and Administration have worked hard to keep costs to a minimum while still offering our students the best education possible. The District had to incur a larger deficit fund balance in order to meet the financial obligations during the year.
- The General Fund balance decreased from (\$38,922) to (\$39,915), due in part to the negotiated salary and benefits settlement for classified and certified staff, the prior year reduction in state aid and existing expenditure commitments of the District.

- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased by \$1,308 from fiscal 2003 to fiscal 2004. While revenues remained approximately the same, the District substantially increased spending from the PPEL Fund in order to purchase a bus.
- The Capital Projects Fund balance decreased \$184,605 due to the completion of the elementary building project. The District had spent all funds in the Capital Projects Fund as of June 30, 2004.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$26,951 at June 30, 2003 to \$25,119 at June 30, 2004, representing a decrease of approximately 7%. For fiscal 2005, the District increased meal prices, resulting in a hopeful increase in net assets. The District has worked to not stockpile so many supplies and to be more efficient in the preparation and serving of the food. We hope through the use of better purchasing practices we are able to keep the costs down.

BUDGETARY HIGHLIGHTS

Over the course of the year, Melcher-Dallas Community School District did not amend its annual budget.

The District's receipts were \$231,420 less than budgeted receipts, a variance of 6%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were more than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practices, the certified budget was exceeded in the support services and other expenditures functional areas.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$3.7 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 1% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$142,165.

The original cost of the District's capital assets was \$5.1 million. Governmental funds account for \$5.0 million, with the remainder of \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities	Business type Activities	Total District
	June 30, 2004	June 30, 2004	June 30, 2004
Land	\$ 14	-	14
Buildings	3,345	-	3,345
Improvements other than buildings	46	-	46
Furniture and equipment	271	26	297
Totals	<u>\$ 3,676</u>	<u>26</u>	<u>3,702</u>

Long-Term Debt

At June 30, 2004, the District had \$1,896,419 in general obligation and capitalized lease obligation debt outstanding. This represents a decrease of approximately 3% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 8 to the financial statements.

Figure A-7
Outstanding Long-term Obligations
(Expressed in Thousands)

	Governmental Activities
	June 30, 2004
General obligation bonds	\$ 1,895
Capitalized lease obligations	1
Totals	<u>\$ 1,896</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Marion County has advised the District that the District's total taxable valuation will decrease for the 2004-05 year, but has increased slightly for the 2005-06 school year.
- The District has experienced declining enrollment for the past three years, the District expects a slight increase in enrollment due to a large pre-school class and a small senior class. In addition, in fiscal 2003, the District counted 11 students in error. Consequently, in fiscal 2005, the State of Iowa made an adjustment in our funding to correct this error.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, one bus must be replaced during fiscal 2005 at a cost of \$45,000. To pay for this bus, the District will use a combination of resources from the General Fund and the one-cent sales tax.
- Fiscal 2004 negotiations with the Melcher-Dallas Education Association for the 2004-05 school year took more money than the new monies received by the Melcher-Dallas Community School District. The District will negotiate a new agreement during fiscal 2005 for the 2005-2006 school year. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Andrea Lawler, District Secretary/Treasurer and Business Manager, Melcher-Dallas Community School District, 210 South Main, Melcher, Iowa, 50163.

Basic Financial Statements

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 943,501	-	943,501
Other	469,105	7,712	476,817
Receivables:			
Property tax:			
Delinquent	25,237	-	25,237
Succeeding year	911,948	-	911,948
Accounts	4,447	-	4,447
Accrued interest:			
ISCAP	1,643	-	1,643
Other	105	-	105
Due from other funds	13,150	-	13,150
Due from other governments	76,861	-	76,861
Inventories	-	4,115	4,115
Capital assets, net of accumulated depreciation	3,675,262	26,442	3,701,704
Total assets	6,121,259	38,269	6,159,528
Liabilities			
Accounts payable	72,953	-	72,953
Salaries and benefits payable	360,948	-	360,948
Other liabilities	10,295	-	10,295
Due to other funds	-	13,150	13,150
Accrued interest payable	15,613	-	15,613
Deferred revenue:			
Succeeding year property tax	911,948	-	911,948
ISCAP warrants payable	938,000	-	938,000
ISCAP accrued interest payable	2,492	-	2,492
Anticipatory warrant payable	68,775	-	68,775
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	70,000	-	70,000
Capitalized lease obligations	665	-	665
Portion due after one year:			
General obligation bonds payable	1,825,000	-	1,825,000
Capitalized lease obligations	754	-	754
Total liabilities	4,277,443	13,150	4,290,593
Net assets			
Invested in capital assets, net of related debt	1,778,843	26,442	1,805,285
Restricted for:			
Management levy	7,882	-	7,882
Physical plant and equipment levy	23,434	-	23,434
Other special revenue purposes	30,119	-	30,119
Unrestricted	3,538	(1,323)	2,215
Total net assets	\$ 1,843,816	25,119	1,868,935

See notes to financial statements.

Melcher-Dallas Community School District

Statement of Activities

Year ended June 30, 2004

Functions / Programs	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,436,122	76,923	151,131	-
Special instruction	620,289	-	86,585	-
Other instruction	87,382	83,205	6,222	-
Co-curricular instruction	87,556	-	-	-
	<u>2,231,349</u>	<u>160,128</u>	<u>243,938</u>	<u>-</u>
Support services:				
Student services	45,289	-	-	-
Instructional staff services	21,403	-	-	-
Administration services	378,676	-	-	-
Operation and maintenance of plant services	258,244	-	-	-
Transportation services	163,317	-	-	-
	<u>866,929</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-instructional programs	<u>-</u>	<u>11,408</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	137,141	-	-	6,616
Long-term debt interest	97,924	-	40	-
AEA flowthrough	127,839	-	127,839	-
Depreciation (unallocated)*	87,088	-	-	-
	<u>449,992</u>	<u>-</u>	<u>127,879</u>	<u>6,616</u>
Total governmental activities	<u>3,548,270</u>	<u>171,536</u>	<u>371,817</u>	<u>6,616</u>
Business type activities:				
Non-instructional programs:				
Food service operations	<u>163,513</u>	<u>83,324</u>	<u>78,357</u>	<u>-</u>
Total	<u>\$ 3,711,783</u>	<u>254,860</u>	<u>450,174</u>	<u>6,616</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt service
Income surtax
Unrestricted state grants
Unrestricted investment earnings
Sale of real estate
Other

Total general revenues

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

* This amount excludes the depreciation that is included in the direct expenses of the various programs

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,208,068)	-	(1,208,068)
(533,704)	-	(533,704)
2,045	-	2,045
(87,556)	-	(87,556)
(1,827,283)	-	(1,827,283)
(45,289)	-	(45,289)
(21,403)	-	(21,403)
(378,676)	-	(378,676)
(258,244)	-	(258,244)
(163,317)	-	(163,317)
(866,929)	-	(866,929)
11,408	-	11,408
(130,525)	-	(130,525)
(97,884)	-	(97,884)
-	-	-
(87,088)	-	(87,088)
(315,497)	-	(315,497)
(2,998,301)	-	(2,998,301)
-	(1,832)	(1,832)
(2,998,301)	(1,832)	(3,000,133)
\$ 732,639	-	732,639
162,769	-	162,769
62,683	-	62,683
1,887,154	-	1,887,154
9,103	-	9,103
7,000	-	7,000
10,508	-	10,508
2,871,856	-	2,871,856
(126,445)	(1,832)	(128,277)
1,970,261	26,951	1,997,212
\$ 1,843,816	25,119	1,868,935

Melcher-Dallas Community School District

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2004

	General	Nonmajor Governmental Funds	Total
Assets			
Cash and pooled investments:			
ISCAP	\$ 943,501	-	943,501
Other	317,264	151,841	469,105
Receivables:			
Property tax:			
Delinquent	18,595	6,642	25,237
Succeeding year	759,722	152,226	911,948
Accounts	825	3,622	4,447
Accrued interest:			
ISCAP	1,643	-	1,643
Other	105	-	105
Due from other funds	52,834	7,000	59,834
Due from other governments	76,861	-	76,861
Total assets	\$ 2,171,350	321,331	2,492,681
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 71,198	1,755	72,953
Salaries and benefits payable	360,948	-	360,948
Other liabilities	10,295	-	10,295
Due to other funds	7,000	39,684	46,684
ISCAP warrants payable	938,000	-	938,000
ISCAP accrued interest payable	2,492	-	2,492
Anticipatory warrant payable	-	68,775	68,775
Deferred revenue:			
Succeeding year property tax	759,722	152,226	911,948
Other	61,610	-	61,610
Total liabilities	2,211,265	262,440	2,473,705
Fund balances:			
Reserved for debt service	-	(2,544)	(2,544)
Unreserved	(39,915)	61,435	21,520
Total fund balances	(39,915)	58,891	18,976
Total liabilities and fund balances	\$ 2,171,350	321,331	2,492,681

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (page 21)	\$ 18,976
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,675,262
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	61,610
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(15,613)
Long-term liabilities, including bonds payable and capitalized lease obligations are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,896,419)</u>
Net assets of governmental activities (page 18)	<u><u>\$ 1,843,816</u></u>

See notes to financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	General	Nonmajor Governmental Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 698,807	235,664	934,471
Tuition	43,292	-	43,292
Other	42,108	100,995	143,103
State sources	2,159,338	-	2,159,338
Federal sources	111,001	-	111,001
Total revenues	<u>3,054,546</u>	<u>336,659</u>	<u>3,391,205</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,421,257	5,947	1,427,204
Special instruction	611,257	2,236	613,493
Other instruction	4,833	81,900	86,733
Co-curricular instruction	87,152	404	87,556
	<u>2,124,499</u>	<u>90,487</u>	<u>2,214,986</u>
Support services:			
Student services	45,088	201	45,289
Instructional staff services	20,644	86	20,730
Administration services	372,885	5,791	378,676
Operation and maintenance of plant services	222,581	28,487	251,068
Transportation services	141,149	58,792	199,941
	<u>802,347</u>	<u>93,357</u>	<u>895,704</u>
Other expenditures:			
Facilities acquisition	-	177,009	177,009
Long-term debt:			
Principal	-	65,586	65,586
Interest and fiscal charges	-	98,519	98,519
AEA flowthrough	127,839	-	127,839
	<u>127,839</u>	<u>341,114</u>	<u>468,953</u>
Total expenditures	<u>3,054,685</u>	<u>524,958</u>	<u>3,579,643</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(139)</u>	<u>(188,299)</u>	<u>(188,438)</u>
Other financing sources (uses):			
Operating transfers in	-	39,059	39,059
Operating transfers out	(854)	(38,205)	(39,059)
Sale of real estate	-	7,000	7,000
Total other financing sources (uses)	<u>(854)</u>	<u>7,854</u>	<u>7,000</u>
Net change in fund balances	(993)	(180,445)	(181,438)
Fund balances beginning of year	<u>(38,922)</u>	<u>239,336</u>	<u>200,414</u>
Fund balances end of year	<u>\$ (39,915)</u>	<u>58,891</u>	<u>18,976</u>

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (page 23) **\$ (181,438)**

***Amounts reported for governmental activities in the
Statement of Activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures was less than depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 104,095	
Depreciation expense	<u>(138,901)</u>	(34,806)

Income surtax is not collected until several months after year end and is not considered available revenue and is deferred in the governmental funds.	23,620
---	--------

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	-	
Repaid	<u>65,586</u>	65,586

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

593

Change in net assets of governmental activities (page 20)	<u><u>\$ (126,445)</u></u>
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See notes to financial statements.

Melcher-Dallas Community School District

Exhibit G

Statement of Net Assets
Proprietary Fund

June 30, 2004

Assets

Cash and cash equivalents
Inventories
Capital assets, net of accumulated depreciation
Total assets

<u>School</u> <u>Nutrition</u>
\$ 7,712
4,115
<u>26,442</u>
<u>38,269</u>

Liabilities

Due to other funds
Total liabilities

<u>13,150</u>
<u>13,150</u>

Net Assets

Invested in capital assets, net of related debt
Unrestricted

26,442
<u>(1,323)</u>
<u>\$ 25,119</u>

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2004

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 83,324</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	58,519
Benefits	22,534
Supplies	74,612
Property	4,584
Depreciation	3,264
Total operating expenses	<u>163,513</u>
Operating loss	<u>(80,189)</u>
Non-operating revenues:	
State sources	2,316
Federal sources	76,041
Total non-operating revenues	<u>78,357</u>
Change in net assets	(1,832)
Net assets beginning of year	<u>26,951</u>
Net assets end of year	<u><u>\$ 25,119</u></u>

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 83,324
Cash paid to employees for services	(81,053)
Cash paid to suppliers for goods and services	(70,895)
Net cash used by operating activities	<u>(68,624)</u>
Cash flows from non-capital financing activities:	
State grants received	2,316
Federal grants received	65,185
Net cash provided by non-capital financing activities	<u>67,501</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(4,321)
Net cash used by capital and related financing activities	<u>(4,321)</u>
Cash flows from investing activities:	
None	<u>-</u>
Net decrease in cash and cash equivalents	(5,444)
Cash and cash equivalents beginning of year	13,156
Cash and cash equivalents end of year	<u>\$ 7,712</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (80,189)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	10,856
Depreciation	3,264
Decrease in inventories	140
(Decrease) in accounts payable	(2,551)
(Decrease) in due to other funds	(144)
Net cash used by operating activities	<u>\$ (68,624)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$10,856 of federal commodities.

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit J

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

Assets

Cash and pooled investments
Accrued interest receivable
Accounts receivable
Total assets

Private Purpose
Trust
Scholarship

\$ 14,751
6
1,000
15,757

Liabilities

-

Net Assets

Reserved for scholarships

\$ 15,757

See notes to financial statements.

Melcher-Dallas Community School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Exhibit K

Year ended June 30, 2004

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 150
Interest income	<u> 1,339</u>
Total additions	1,489
Deductions:	
Support services:	
Scholarships awarded	<u> 1,000</u>
Changes in net assets	489
Net assets beginning of year	<u> 15,268</u>
Net assets end of year	<u><u> \$ 15,757</u></u>

See notes to financial statements.

MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(1) Summary of Significant Accounting Policies

Melcher-Dallas Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Melcher-Dallas, Iowa, and the predominate agricultural territory of Marion County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Melcher-Dallas Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Melcher-Dallas Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on Long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds be recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in applicable government or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired.. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund. At June 30, 2004, no compensated absence liability was reported in the financial statements.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the support services and other expenditures functional areas exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$131,137 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Due From and Due to Other Funds

The details of interfund receivables and payables at June 30, 2004 are as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue:	
	Physical Plant and Equipment Levy	\$ 13,925
	Debt Service	25,759
	Proprietary:	
	School Nutrition	13,150
		<u>52,834</u>
Special Revenue:		
Physical Plant and Equipment Levy	General	7,000
Total		<u>\$ 59,834</u>

The above due from/to amounts primarily represent loans between funds, and corrections of incorrect recording of transactions.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 854
Special Revenue: Physical Plant and Equipment Levy	Capital Projects: Building Construction	38,205
Total		<u>\$ 39,059</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	\$ 302,043	1,643	300,000	2,492
2004-05A	6/30/04	6/30/05	641,458	-	638,000	-
Total			<u>\$ 943,501</u>	<u>1,643</u>	<u>938,000</u>	<u>2,492</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04B	\$ -	677,000	677,000	-

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	2.603%
2003-04B	2.000%	1.392%
2004-05A	3.000%	2.463%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 14)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ -	13,925	-	13,925
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	13,925	-	13,925
Capital assets being depreciated:				
Buildings	4,111,700	-	-	4,111,700
Improvements other than buildings	203,251	-	-	203,251
Furniture and equipment	625,999	90,170	(40,800)	675,369
Total capital assets being depreciated	4,940,950	90,170	(40,800)	4,990,320
Less accumulated depreciation for:				
Buildings	685,838	81,299	-	767,137
Improvements other than buildings	151,379	5,789	-	157,168
Furniture and equipment	393,665	51,813	(40,800)	404,678
Total accumulated depreciation	1,230,882	138,901	(40,800)	1,328,983
Total capital assets being depreciated, net	3,710,068	(48,731)	-	3,661,337
Governmental activities capital assets, net	\$ 3,710,068	(34,806)	-	3,675,262

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	\$ 44,769	4,321	-	49,090
Less accumulated depreciation	19,384	3,264	-	22,648
Business type activities capital assets, net	\$ 25,385	1,057	-	26,442

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 8,918
Special	6,796
Other	649

Support services:

Instructional staff	672
Operation and maintenance of plant	7,176
Transportation	27,602

	51,813
Unallocated	87,088

Total depreciation expense - governmental activities	<u>\$ 138,901</u>
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Business type activities:

Food service operations	<u>\$ 3,264</u>
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(7) Anticipatory Warrant

On June 15, 2004, the District entered into an agreement with Iowa State Savings Bank, Knoxville, Iowa to provide for the issuance of a warrant in anticipation of school infrastructure local option sales and service tax receipts. The warrant was issued to Melcher-Dallas Community School District for \$68,775. The warrant is payable from the revenues of the school infrastructure local option sales and service tax, and matures on December 15, 2004 with an interest rate of 4.00 percent per annum.

(8) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,960,000	-	65,000	1,895,000	70,000
Capitalized lease obligations	2,005	-	586	1,419	665
Total	\$ 1,962,005	-	65,586	1,896,419	70,665

General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 1999			Bond Issue of December 1, 2001			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2005	5.50%	\$ 70,000	71,468	-	-	22,207	70,000	93,675	163,675
2006	5.50%	70,000	67,618	5.00%	5,000	22,208	75,000	89,826	164,826
2007	5.50%	75,000	63,768	5.00%	5,000	21,957	80,000	85,725	165,725
2008	4.40%	80,000	59,642	5.00%	10,000	21,708	90,000	81,350	171,350
2009	4.50%	85,000	56,122	5.00%	10,000	21,207	95,000	77,329	172,329
2010-2014	4.60-4.95%	475,000	219,140	4.30-4.70%	50,000	99,138	525,000	318,278	843,278
2015-2019	5.00%	590,000	91,250	4.80%	70,000	85,928	660,000	177,178	837,178
2020-2024		-	-	5.00%	300,000	22,500	300,000	22,500	322,500
Total		<u>\$ 1,445,000</u>	<u>629,008</u>		<u>450,000</u>	<u>316,853</u>	<u>1,895,000</u>	<u>945,861</u>	<u>2,840,861</u>

Capitalized Lease Obligation

The District has entered into a capital lease for the purchase of musical equipment. The assets have been capitalized at cost.

Future minimum lease payments for the capital lease commitments are as follows:

<u>Year Ended- June 30</u>	<u>Amount</u>
2005	\$ 854
2006	<u>854</u>
	1,708
Less amount attributable to interest	<u>289</u>
Present value of minimum lease payments	<u>\$ 1,419</u>

The interest rate on the capitalized lease is 13.375%, and is imputed based on the lessor's implicit rate of return.

(9) Operating Lease

The District has entered into an operating lease for various electronic equipment.

Future minimum lease payments in relation to this lease are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2005	\$ 10,386
2006	<u>10,386</u>
Total	<u>\$ 20,772</u>

During the fiscal year, payments made under this lease amounted to \$10,386.

(10) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$106,802, \$103,256 and \$108,258, respectively, equal to the required contributions for each year.

(11) Risk Management

Melcher-Dallas Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Related Party Transactions

The District had business transactions totaling \$2,089 between the District and District officials during the year ended June 30, 2004.

(13) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$127,839 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(14) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

The Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund		
	General	Nonmajor Governmental Funds	Total
Net assets June 30, 2003, as previously reported	<u>\$ (38,922)</u>	<u>239,336</u>	200,414
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$1,230,882			3,710,068
Long-term liabilities:			
General obligation bonds		1,960,000	
Capitalized lease obligations		<u>2,005</u>	(1,962,005)
Accrued interest payable			(16,206)
Deferred revenue			<u>37,990</u>
Net assets July 1, 2003, as restated			<u>\$ 1,970,261</u>

Required Supplementary Information

Meicher-Dallas Community School District

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budget Amounts Original	Final to Actual Variance
Receipts:					
Local sources	\$ 1,057,895	83,324	1,141,219	1,227,394	(86,175)
State sources	2,123,059	2,316	2,125,375	2,307,806	(182,431)
Federal sources	111,001	65,185	176,186	139,000	37,186
Total receipts	3,291,955	150,825	3,442,780	3,674,200	(231,420)
Disbursements:					
Instruction	2,237,335	-	2,237,335	2,358,000	120,665
Support services	814,932	-	814,932	764,000	(50,932)
Non-instructional programs	-	156,269	156,269	165,000	8,731
Other expenditures	501,796	-	501,796	299,424	(202,372)
Total disbursements	3,554,063	156,269	3,710,332	3,586,424	(123,908)
Excess (deficiency) of receipts over (under) disbursements	(262,108)	(5,444)	(267,552)	87,776	(355,328)
Other financing sources, net	75,775	-	75,775	-	75,775
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(186,333)	(5,444)	(191,777)	87,776	(279,553)
Balances beginning of year	655,438	13,156	668,594	475,632	192,962
Balances end of year	\$ 469,105	7,712	476,817	563,408	(86,591)

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 3,291,955	99,250	3,391,205
Expenditures	3,554,063	25,580	3,579,643
Net	(262,108)	73,670	(188,438)
Other financing sources, net	75,775	(68,775)	7,000
Beginning fund balances	655,438	(455,024)	200,414
Ending fund balances	\$ 469,105	(450,129)	18,976

	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 150,825	10,856	161,681
Expenses	156,269	7,244	163,513
Net	(5,444)	3,612	(1,832)
Beginning net assets	13,156	13,795	26,951
Ending net assets	\$ 7,712	17,407	25,119

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, disbursements in the support services and other expenditures functions exceeded the amounts budgeted.

Other Supplementary Information

Melcher-Dallas Community School District

Schedule 1

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
Assets					
Cash and pooled investments	\$ 6,272	28,252	29,915	87,402	151,841
Receivables:					
Property tax:					
Delinquent	1,610	-	444	4,588	6,642
Succeeding year	57,000	-	-	95,226	152,226
Accounts	-	3,622	-	-	3,622
Due from other funds	-	-	7,000	-	7,000
Total assets	\$ 64,882	31,874	37,359	187,216	321,331
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ -	1,755	-	-	1,755
Due to other funds	-	-	13,925	25,759	39,684
Anticipatory warrant payable	-	-	-	68,775	68,775
Deferred revenue:					
Succeeding year property tax	57,000	-	-	95,226	152,226
Total liabilities	57,000	1,755	13,925	189,760	262,440
Fund equity:					
Reserved for debt service	-	-	-	(2,544)	(2,544)
Unreserved fund balances	7,882	30,119	23,434	-	61,435
Total fund equity	7,882	30,119	23,434	(2,544)	58,891
Total liabilities and fund equity	\$ 64,882	31,874	37,359	187,216	321,331

See accompanying independent auditor's report.

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2004

	Special Revenue			Capital Projects		Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Building Construction	
Revenues:						
Local sources:						
Local tax	\$ 57,128	-	15,767	162,769	-	235,664
Other	923	83,331	17	40	16,684	100,995
Total revenues	58,051	83,331	15,784	162,809	16,684	336,659
Expenditures						
Current:						
Instruction:						
Regular instruction	5,947	-	-	-	-	5,947
Special instruction	2,236	-	-	-	-	2,236
Other instruction	-	81,900	-	-	-	81,900
Co-curricular instruction	404	-	-	-	-	404
Support services:						
Student services	201	-	-	-	-	201
Instructional staff services	86	-	-	-	-	86
Administration services	5,651	-	140	-	-	5,791
Operation and maintenance of plant services	28,487	-	-	-	-	28,487
Transportation services	10,560	-	48,232	-	-	58,792
Other expenditures:						
Facilities acquisition	-	-	13,925	-	163,084	177,009
Long-term debt:						
Principal	-	-	-	65,586	-	65,586
Interest and fiscal charges	236	-	-	98,283	-	98,519
Total expenditures	53,808	81,900	62,297	163,869	163,084	524,958
Excess (deficiency) of revenues over (under) expenditures	4,243	1,431	(46,513)	(1,060)	(146,400)	(188,299)
Other financing sources (uses):						
Operating transfers in	-	-	38,205	854	-	39,059
Operating transfers out	-	-	-	-	(38,205)	(38,205)
Sale of real estate	-	-	7,000	-	-	7,000
Total other financing sources (uses)	-	-	45,205	854	(38,205)	7,854
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	4,243	1,431	(1,308)	(206)	(184,605)	(180,445)
Fund balances beginning of year	3,639	28,688	24,742	(2,338)	184,605	239,336
Fund balances end of year	\$ 7,882	30,119	23,434	(2,544)	-	58,891

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 3

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Interest	\$ -	469	469	-
H.S. Athletics	9,883	40,231	39,338	10,776
J.H. Athletics	775	4,751	4,649	877
Wrestling	974	4,301	3,885	1,390
French	576	-	-	576
SADD	342	-	-	342
Cheerleaders	85	2,291	2,346	30
FBLA	828	5,529	5,745	612
Yearbook	1,999	4,714	5,117	1,596
FHA	188	-	-	188
FFA	2,760	-	-	2,760
Newspaper	125	-	-	125
Student Council	4,016	4,410	5,083	3,343
Drill Team	51	4,424	3,329	1,146
Thespian Club	76	55	55	76
Elementary Student Government	3,830	3,048	2,958	3,920
Class of 06	15	-	-	15
Class of 05	-	5,355	4,665	690
Class of 04	643	1,049	1,692	-
Jr. High	949	2,705	2,570	1,084
Memorial	573	-	-	573
Total	\$ 28,688	83,332	81,901	30,119

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 4

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Two Years

	Modified Accrual Basis	
	2004	2003
Revenues:		
Local sources:		
Local tax	\$ 934,471	948,264
Tuition	43,292	58,442
Other	143,103	134,023
State sources	2,159,338	2,253,229
Federal sources	111,001	132,711
Total	<u>\$ 3,391,205</u>	<u>3,526,669</u>
Expenditures:		
Instruction:		
Regular instruction	\$ 1,427,204	1,607,329
Special instruction	613,493	500,206
Other instruction	86,733	10,846
Co-curricular instruction	87,556	174,044
Support services:		
Student services	45,289	13,019
Instructional staff services	20,730	-
Administration services	378,676	328,846
Operation and maintenance of plant services	251,068	231,334
Transportation services	199,941	167,555
Non-instructional programs	-	354
Other expenditures:		
Facilities acquisition	177,009	1,064,697
Long-term debt:		
Principal	65,586	65,517
Interest and other charges	98,519	102,440
AEA flowthrough	127,839	137,004
Total	<u>\$ 3,579,643</u>	<u>4,403,191</u>

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
103 BENTON AVENUE EAST
ALBIA, IOWA 52531

(641) 932-3295

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education of
Melcher-Dallas Community School District:

We have audited the financial statements of the Melcher-Dallas Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Melcher-Dallas Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items II-G-04, II-H-04, II-L-04, II-M-04, II-N-04 and II-O-04 in the accompanying Schedule of Findings.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Melcher-Dallas Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions describe above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Melcher-Dallas Community School District and other parties to whom Melcher-Dallas Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Melcher-Dallas Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

August 20, 2004

MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-04 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation – We realize that it is difficult to segregate duties with a limited number of office employees. However, the District should review its operating procedures to obtain the maximum control possible under the circumstances.

Response – We will continue to investigate available alternatives.

Conclusion – Response accepted.

- I-B-04 Nutrition Fund Receipts – The District's nutrition computer system, called Accu-Scan, is designed to account for the Nutrition Fund receipts as well as the individual student nutrition accounts. Our review noted that the Accu-Scan system does not record the milk and ala carte receipts. Instead, milk and ala carte receipts are just collected and not recorded on the Accu-Scan system.

Recommendation – To increase accountability and control, all receipts, including milk and ala carte, should be recorded on the Accu-Scan system when monies are received.

Response – We will review this area and make changes as necessary.

Conclusion – Response accepted.

MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - Disbursements for the year ended June 30, 2004 exceed the certified budget amounts in the support services and other expenditures functions.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted.

II-E-04 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mark Herold, Board Member	Bus driver	\$ 1,787
Lary Willoughby, Board Member	Coach	302

Both of the above employees were included on the District's payroll. The contract with both of these employees were approved by the Board. Due to the size of the transactions, the above does not appear to represent a conflict of interest pursuant to Chapter 279.7A of the Code of Iowa.

II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Board Minutes - Transactions requiring Board approval which had not been approved by the Board were noted. On a split vote, the vote of each board member was not documented, as required by Chapter 21.3 of the Code of Iowa.

Some invoices were not approved by the Board or published in the newspaper as required by Chapters 279.29 and 279.35 of the Code of Iowa.

Recommendation - The District implement procedures to ensure the requirements per the Code of Iowa are met regarding documentation of split votes and the approval and publication of invoices.

MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

Response – We will implement these recommendations.

Conclusion – Response accepted.

- II-H-04 Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2003 was overstated by 2 students. These 2 students were Melcher-Dallas Community School District residents who attended school in another District. The 2 students appear to be properly counted by Melcher-Dallas Community School District. However, the receiving District did not bill Melcher-Dallas Community School District for these students. Based on our discussion with the Department of Education, this situation must be reported to them by the auditor.

Recommendation – The District contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – We will contact the Iowa Department of Education and the Department of Management.

Conclusion – Response accepted.

- II-I-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

- II-J-04 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

- II-K-04 Credit Card Policy – The District has credit cards for gasoline and from stores which sell general merchandise. The District does not have a written policy regarding the use of these credit cards in accordance with Chapter 279.8 of the Code of Iowa.

Recommendation – The Board should adopt a written policy governing the use of District-owned credit cards. The policy should specify the individuals who are authorized to use the cards and should include the types of expenses allowed to be charged and the documentation required to be submitted to support the expense incurred and to allow authorization for payment.

Response – The District will consult with legal counsel and the Iowa Association of School Boards to formulate a policy governing the use of District owned credit cards.

Conclusion – Response accepted.

- II-L-04 Financial Condition – The District's General Fund total fund equity at June 30, 2004 was (\$39,915). In addition, the Debt Service Fund had a fund equity of (\$2,544) at June 30, 2004.

Recommendation – The District continue to monitor the General Fund and Debt Service Fund to prevent any further financial deterioration of these funds. In addition, procedures should be implemented to increase revenues and/or decrease expenditures in these funds.

Response – We are aware of the District's financial condition, and will continue to monitor this condition to ensure further financial deterioration does not exist in these funds.

Conclusion – Response accepted.

MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

- II-M-04 Disbursements – Paid invoices were not always canceled. In addition, Chapter 279.30 of the Code of Iowa requires the approval of the board president for claims paid prior to the board meeting. Our review noted that this approval is not documented. Some claims were paid from a statement and not an invoice.
- Recommendation – All invoices paid should be canceled by marking them “paid” on the invoice. The District also implement procedures to ensure the board president approves all claims paid prior to the board meeting, and that this approval is documented. Also, all claims should be paid from invoices and not statements.
- Response – We will implement these recommendations.
- Conclusion – Response accepted.
- II-N-04 Fuel Procedures – The District buys its fuel as needed from a vendor in town. In addition, a vehicle log is kept in each vehicle. However, there is no reconciliation between fuel purchased per the vendor invoices with the vehicle logs.
- Recommendation – To provide increased accountability over fuel purchased, the District should periodically reconcile fuel purchased per the vendor invoices with the vehicle logs. Any differences and any unusual amounts of fuel used should be periodically investigated and followed up on in a timely manner.
- Response – We will review our procedures at this time.
- Conclusion – Response accepted.
- II-O-04 General Fixed Assets – Fixed assets were not periodically counted and reconciled to the fixed asset listing by an independent person.
- Recommendation – Fixed assets should be periodically counted and reconciled to the fixed asset listing by a person who does not have custody of the fixed assets.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.
- II-P-04 Anticipatory Warrants Payable – The notice of intended action to enter into anticipatory warrants was not published nor was a public hearing held, as required per the Code of Iowa.
- Recommendation – In the future, the District ensure the requirements per the Code of Iowa are met in regards to borrowings of funds.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.
- II-Q-04 Teacher Quality Program – We noted that the District spent approximately \$6,800 more on the teacher quality program than what the District received from this program.
- Recommendation – Given the tight budget situation, we recommend the District not spend more on the teacher quality program than the related funds received from this program

MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

Response – We will implement this recommendation

Conclusion – Response accepted.

II-R-04 Payroll – The IRS 941 reports do not reconcile with the W3 form for the 2003 year. Instances were noted where the flexible benefits were not shown at pre-tax amounts. In addition, an individual was overpaid, supervisor approval is not always documented on the timesheets, and some I-9 forms were either missing or incomplete.

Recommendation – We recommend the District implement procedures to reconcile the payroll tax forms with each other, flexible benefits are shown as pre-tax, individuals are properly paid, a supervisor approves all timesheets, and all I-9 forms are completed, where required.

Response – We will implement this recommendation.

Conclusion – Response accepted.